

China's Accession to the WTO: Effects on U.S. Pork and Poultry

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The Food and Agricultural Policy Research Institute (FAPRI) recently analyzed the impact of China's accession to the World Trade Organization (WTO) on major agricultural markets, relative to the 2001-2010 FAPRI baseline. Consistent with the intuitive consequences of productive land scarcity in China, the FAPRI analysis suggests that China does not have a comparative advantage in feed crops and, hence, in livestock production. The FAPRI analysis finds that the Chinese oilseed crushing, grain, and livestock sectors are negatively affected by WTO accession. The reduction in domestic feed prices initially stimulates Chinese meat and dairy production and actually decreases imports for a few years.

With full implementation of livestock tariff reductions, however, pork and poultry product imports increase and bring competitive discipline to the domestic industry, as shown in Figures 1 and 2. FAPRI projects that pork and poultry imports would increase by more than 800 and 600 thousand metric tons respectively, relative to their baseline levels, by 2010. Feed use in China declines in the latter half of the scenario despite the lower feed price because hog and poultry output decreases significantly. Changes in aggregate grain utilization are limited because it is more rational for China to import meat rather than feed. The increase in China's meat imports embodies 2.26 million metric tons of grains or is equivalent to such volume of grain imports.

Rising meat imports are consistent with the fact that it is currently 3.9 times more costly to ship grain in its raw form than to ship an equivalent quantity of grain in the form of animal

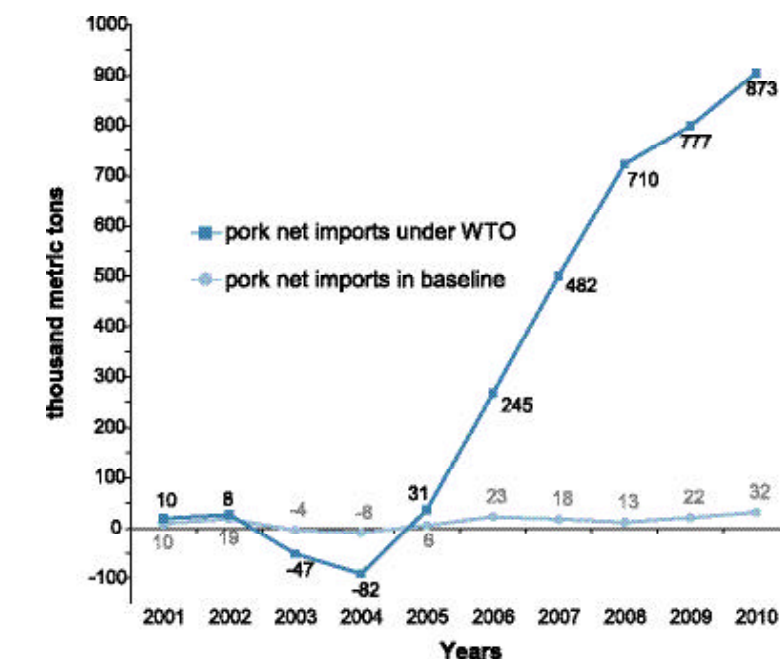


FIGURE 1. CHINESE NET PORK TRADE

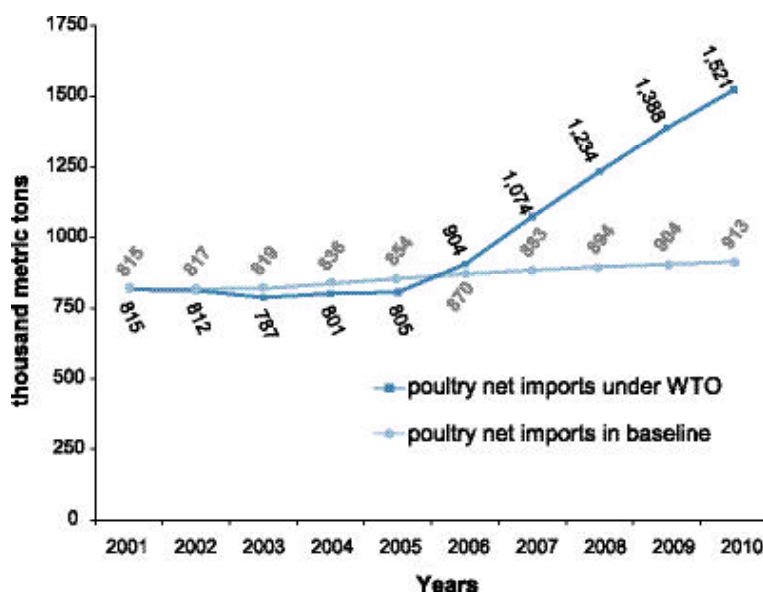


FIGURE 2. CHINESE NET POULTRY TRADE

protein. Although China has some niche export markets in labor-intensive meat products, such as deboned chicken cuts in Japan, its potential for meat exports is seriously constrained by prevailing phytosanitary conditions. China has recently reported outbreaks of foot-and-mouth disease, classical swine fever, Newcastle dis-

ease, and avian influenza, among other diseases. In 1998/99, the European Union banned poultry imports from China, and pesticide residue in meat is also a concern.

To learn more about FAPRI's analysis on China's accession to the WTO see CARD Working Paper 01-WP 276, available at www.card.iastate.edu. ♦

the upper Midwest and the switching of acreage from soybeans to cotton along the Mississippi were the main reasons given for the 1.3 million acre reduction in estimated soybean planted acres.

FARM BILL WISH LISTS

The farm bill debate has definitely picked up pace as the temperatures have risen. Most of the major commodity and farm interest groups have presented their wish lists for the future farm bill to the U.S. House of Representatives. There are several components that are common across many of the lists: the continuation of Agricultural Market Transition Assistance (AMTA) payments, the addition of oilseeds to the AMTA payment list, the continuation of the marketing loan program (with some adjustments to crop loan rates), and the addition of a countercyclical program to the mix of farm programs. At least two of the proposals include higher acreage limits for the Conservation Reserve Program.

Significant differences also exist among the proposals. The National Farmers Union is proposing an elimination of AMTA payments; the rees-

tablishment of the Farmer-Owned Reserve, set-asides, and other commodity reserves; and the adoption of a "flex-fallow" type program where producers agree to increase set-asides in exchange for higher marketing loan rates. The National Corn Growers Association is suggesting that the marketing loan program be replaced with a countercyclical program. Different groups favor different types of countercyclical programs. Some are crop-specific, while others are not. The program design may be countercyclical to price or to revenue.

Congress still has much work to do on the next farm bill, but the budget framework is in place. The legislators have set aside nearly \$80 billion in additional funds for agriculture over the period 2001 to 2011. For the current year, they have allocated \$5.5 billion for producer assistance. At the time of this writing, the House of Representatives has approved the producer assistance but the Senate has not yet taken it up. The Senate is expected to move on the assistance package in July. A detailed accounting of the House version of the producer assistance package shows that \$4.6 billion of the total would be paid out as Market Loss Assistance (MLA) payments (otherwise known as supplemental

AMTA payments), \$424 million would go to assist oilseed producers, \$54 million would go to peanut producers, and \$129 million would go to tobacco growers. Wool and mohair producers would get \$17 million, cottonseed producers and handlers would get \$85 million, and specialty crop assistance would amount to \$169 million of the budget. In addition, the bill increases payment limitations on the combined amounts from marketing loan gains and loan deficiency payments to \$150,000 per person for the 2001 crop year.

The MLA payments have been in the news lately due to the recent USDA announcement that such payments are considered trade distorting under World Trade Organization (WTO) guidelines. This means that these payments could count against our WTO domestic support limits. Under the most recent WTO agriculture agreement, the United States agreed to limit spending on policies that are considered trade distorting to \$19.1 billion per year. The MLA payments would account for nearly 25 percent of this total. If the WTO spending limits become a constraint on farm policy, this designation of the MLA payments could have a profound effect on the shape of the future farm bill. ♦

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